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# PERCEPTIONS OF THE FOREIGN DIRECT INVESTORS ON THE ROMANIAN BUSINESS ENVIRONMENT

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**Abstract:** *In Romania the foreign direct investment had a delayed beginning in comparison with other former socialist countries. To this situation many factors contributed: the political, economical and legislative instability, the sometimes hostile authorities' attitude a.s.o. Some of the changes from the business environment are easily anticipated, but the implications of other ones are very difficult to be estimated. In this paper we study the perceptions of some Romanian foreign direct investors using an own investigation realized at more than a year from the adhesion. In the investigation we interviewed 32 executives of FDI. The subjects included different aspects of the business environment from Romania: macroeconomic stability, labor force cost, corruption, fiscal aspects, infrastructure, political situation, cooperation with local authorities a.s.o. We also took into consideration the main positive and negative aspects of the adhesion felt by the foreign direct investors. All these aspects were connected to the expectations the executives had before the adhesion. Although the sample we used is too small in order to allow generalizations, the results of our investigation may bring indices of the foreign direct investors' perceptions about the Romanian business environment.*

**Keywords:** Business Environment, European Integration, Foreign Direct Investors

**JEL Classification:** F21, F23, F29

## 1. INTRODUCTION

In the last years the foreign direct investment (FDI) gained a major role in the economic activity from Romania. Its evolution influenced significantly the labor productivity and the economic growth. The flows of FDI allowed the external deficits financing and they contributed at the national currency strength. From the perspective of the integration exigencies we may consider that future inflows of foreign capital are the conditions for Romania to catch up the EU members standards.

At the beginning of the transition period, the FDI in Romania reached low levels in comparison with other former socialist countries. This situation had as main causes the instability of the business environment and a hostile attitude of the public authorities. By the end of the 1990s, the change of this attitude, together with the political, legislative and economic stabilization, allowed the decrease of gaps.

The EU adhesion brought significant changes in the Romanian business environment. The economic growth was impelled, stimulating the domestic demand. The European legislation was adopted in many economic domains. In the commercial relations with EU countries customs formalities were simplified and the VAT payment at Customs was eliminated. The EU adhesion had also some negative effects as firms' labor force becoming more expensive and the increase of some prices. These consequences could change the strategies of the foreign direct investors.

The characteristics of foreign direct investments in the former socialist countries have been extensively studied. Sohinger (2004) proved the presence of FDI helps creating a powerful set of economic and political incentives that stimulated the transition economies competitiveness growth. Mileva (2008) demonstrated the spillover effect of FDI over internal investment.

Birsan and Buiga (2008) approached the FDI evolution in Romania, concluding that before the adhesion most of the foreign direct investors were primarily efficiency seeking, attracted by the cheap labor and after the adhesion the new investors could be expected to be primarily market seeking. Pauwels and Ionita (2008) considered that, in order to attract FDI, necessary for catching-up the other EU members, Romania had to improve the business climate.

In this paper we analyze their perceptions over the Romanian business environment, in the context created by the EU adhesion. For this purpose we use the results of an own investigation among 32 managers of FDI. We are aware the used sample is too small in order to allow generalizations. However, the result of our investigation could serve to understand the elements of Romanian business environment that play major roles in the foreign direct investors' strategic decisions.

## **2. INVESTIGATION AMONG THE FOREIGN DIRECT INVESTORS**

### **2.1. Investigation Method**

Our investigation was realized on a sample of 32 executives of FDI from Romania. From their distribution taking into account the origin countries, it results that 28 companies come from EU and 4 are from United States. 17 managers have ages between 35 and 45 years, while the other 15 have ages between 25 and 35 years. 24 firms have an industrial activity and 8 act in the services field. The period of investigation was November 2007 - August 2008. As procedure of collecting data we used the individual interviews.

### **2.2. EU adhesion impact on the business environment from Romania**

The executives were interrogated about the most favorable consequence of adhesion for their firms. Almost 47 percent of them indicated the demand increase in Romania and almost 22 percent indicated the legislative stability (see Table 1). For seven firms with significant partners from European countries the most favorable effect was represented by the Customs formalities simplification and elimination of VAT payment at Customs in the relations with EU. Among the four foreign direct

investors from The United States, three considered the most favorable effect was demand increase in Romania and the fourth one indicated the easier access on the EU markets.

**Table 1 - Answers of the executives regarding the most favorable consequence of EU adhesion**

Nr. crt.	The most favorable consequence	Nr. of executives	Weight [%]
1	Demand increase in Romania	15	46.9
2	Legislative stability	7	21.9
3	Customs formalities simplification	4	12.5
4	Elimination of VAT payment at Customs	3	9.4
5	Easier access on the EU markets	3	9.4
6	Total	32	100.0

We also interrogated the executives about the most unfavorable consequence of EU adhesion. Three quarters of them considered the main negative effect of adhesion was represented by the difficulties appeared in recruiting the personnel (see Table 2). Four executives indicated the competition increase as the main unfavorable consequence. They are from Italy and Germany and they worry that many firms from their countries decided to invest in Romania. Two managers indicated the raw materials and lands prices increase as the main negative effect and another executive from a company of footwear production indicated the decrease of Customs duties for the Asian products. A single manager considered that for his firm the EU adhesion had no negative consequences.

**Table 2 - Answers of the executives concerning the most unfavorable consequence of EU adhesion**

Nr. crt.	The most unfavorable consequence	Nr. of executives	Weight [%]
1	Difficulties in recruiting the personnel	24	75.0
2	Competition increase	4	12.5
3	Raw materials and lands prices increase	2	6.3
4	Decrease of Customs duties for the Asian products	1	3.1
5	No negative consequences	1	3.1
6	Total	32	100

### **2.3. Infrastructure and corruption from the host country**

We asked the managers to characterize the infrastructure of Romania. More than 65 percent of them consider it as unsatisfactory (see Table 3). Especially the bad roads hampered the activity of their firms. Some of them complained they had

to revise the initial plans because the transport durations and the trucks depreciation were much bigger than they expected.

**Table 3 - Answers of the executives regarding the Romanian infrastructure quality**

Nr. crt.	Mark	Nr. of executives	Weight [%]
1	Very good	-	0
2	Good	5	15.6
3	Satisfactory	6	18.8
4	Unsatisfactory	21	65.6
5	Total	32	100

Regarding the corruption from Romania, 87.5 percent of the executives characterized it as Quite serious (see Table 4). Two of them (one from Italy and one from Germany) considered it as Very serious and other two executives (again one from Italy and one from Germany) regarded it as Not serious. All the 32 executives declared they had information about the corruption in the host country before decided to invest in Romania.

**Table 4 - Answers of the executives concerning the corruption from Romania**

Nr. crt.	Mark	Nr. of executives	Weight [%]
1	Very serious	2	6.25
2	Quite serious	28	87.50
3	Not serious	2	6.25
5	Total	32	100

## **2.4. Social and political situation from Romania**

In the period of time from the EU adhesion the political situation from Romania had serious changes. The coalition that won the elections in 2006 broke and between the President and the Prime minister the relations seem impossible to improve. Such evolutions could lead to the foreign investors' nervousness, influencing their strategies. In the investigation we asked the executives to characterize the evolution of the political situation from Romania. It resulted that more than 65 percent of them considered this evolution as quite alarming (see Table 5). The main concern of them was the minority government wouldn't be able to promote the reforms. The other 21 of them believed they had no reason to be worried because, in their opinion, Romania was definitively engaged in the reform. We did not find any relevance of the age of executives in connection with their perceptions about the political situation. However, the accuracy of our investigation could be affected because the interviews covered a relatively long period of time and during it the political situation experienced many changes.

**Table 5 - Answers of the executives regarding the political situation evolution in Romania**

Nr. crt.	Mark	Nr. of executives	Weight [%]
1	Very alarming	-	0
2	Quite alarming	21	65.6
3	Not alarming	11	34.4
5	Total	32	100

We interrogated the managers about the collaboration of their firms with the local authorities. Almost 72 percent considered it as Satisfactory and almost 19 percent regarded it as Good (see Table 6). All the 32 executives believed that local authorities had inadequate structures, generating inefficiency.

**Table 6 - Answers of the executives concerning the collaboration with the local authorities**

Mark	Very good	Good	Satisfactory	Unsatisfactory	Total
Nr. of executives	-	6	23	3	32
Weight [%]	0	18.8	71.9	9.4	100

## 2.5. Economic juncture from the host country

The recent growth of Romanian economy was accompanied by inconvenient phenomena such as inflation and wages increase. We asked the executives about how much they worry about the future price evolution. More than 56 percent considered it as quite alarming and 37.5 percent believed it was not alarming (see Table 7). However, the managers admitted the rise of inflation was a common phenomenon for many economies in the last months.

**Table 7 - Answers of the executives regarding the evolution of prices in Romania**

Mark	Very alarming	Quite alarming	Not alarming	Total
Nr. of executives	2	18	12	32
Weight [%]	6.3	56.2	37.5	100

We asked the executives about the impact wages increase on the activity of their firms. It resulted that for 84.4 percent the impact was Very big or Quite big (see Table 8). However, this evolution was expected by the implied managers.

**Table 8 - Answers of the executives concerning the impact of the wages increase on the firms' activity**

Mark	Very big	Quite big	Insignificant	Total
Nr. of executives	8	19	5	32
Weight [%]	25.0	59.4	15.6	100

The growth of wages in Romania could also continue in the future. We asked the managers how much they worry about this evolution. It resulted that more than 81 percent considered that as Very alarming or Quite alarming (see Table 9).

**Table 9 - Answers of the executives regarding the perspective of the future wages increases in Romania**

Mark	Very alarming	Quite alarming	Not alarming	Total
Nr. of executives	3	23	6	32
Weight [%]	9.4	71.9	18.8	100

Some managers took into consideration the closing of their investment in Romania in the case of a substantial growth of wages.

Another important aspect of the economic context is the taxation. We asked the managers to characterize the Romanian taxes. It resulted that 62.5 percent of them considered the taxation as Quite burdening (see Table 10). However, most of the managers expected a decrease of the taxes, especially of the payroll taxes, in the next years.

**Table 10 - Answers of the executives concerning the taxation in Romania**

Nr. crt.	Mark	Nr. of executives	Weight [%]
1	Very burdening	-	0
2	Quite burdening	20	62.5
3	Not burdening	12	37.5
5	Total	32	100

### 3. CONCLUSIONS

In this paper we approached the foreign direct investors' perceptions over the Romanian business environment. For this purpose we used an investigation among 32 executives. It resulted they perceived the demand increase as the main favorable effect of the adhesion to EU and the difficulties in recruiting the personnel as the main unfavorable one.

In general, the managers appreciated that some aspects of the business environment such as infrastructure, situation of corruption or taxation had to be improved. Some of them worried about the perspectives of wages increase. However, after all, the Romanian business environment is still attractive for them.

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